

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-08 NSC-05
TRSE-00 SS-15 STR-05 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03
LAB-04 SIL-01 L-03 H-01 DODE-00 PA-01 PRS-01
AGRE-00 /085 W

-----090252 281125Z /20

P 280943Z OCT 77

FM AMEMBASY TEL AVIV
TO SECSTATE WASHDC PRIORITY 8938

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E.O. 11652: N/A

TAGS: ECON, EAID, IS

SUBJECT: ISRAEL'S 1977 ECONOMIC PERFORMANCE AND US AID LEVELS

1. DURING THE OCTOBER 25-28 VISIT OF AID ASSOCIATE ADMINISTRATOR WHEELER TO ISRAEL, HE AND E/C COUNSELOR HELD A ROUNDTABLE DISCUSSION ON THE STATE OF THE ISRAELI ECONOMY WITH TOP MINISTRY OF FINANCE PEOPLE. BASED ON THE RECENTLY AVAILABLE DATA, THE GOI CURRENTLY ESTIMATES THAT CY 1977 GNP GROWTH WILL BE ABOUT 1.5 PERCENT. EXPORTS ARE GROWING FASTER THAN EXPECTED AND MAY BE UP 20 PERCENT FOR THE YEAR. CIF IMPORTS ARE LOWER THAN PREVIOUSLY ESTIMATED BECAUSE OF REDUCED INVISIBLE EXPENDITURES AND THE CONTINUING DEPRESSED LEVEL OF ECONOMIC ACTIVITY. THE GOI IS NOW PREDICTING AN IMPROVEMENT IN THE CURRENT ACCOUNT (IN THEIR FY 79 AID REQUEST, THEY SHOWED AN INCREASE IN THE DEFICIT OF \$200 MILLION FOR THIS YEAR.) DEFICIT OF \$100 MILLION THIS YEAR COMPARED TO 1976.

2. THE MOST DISTURBING NEW FIGURE AVAILABLE IS A FURTHER DECLINE IN GROSS DOMESTIC INVESTMENT. FOR
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THE YEAR, INVESTMENT MAY BE ONLY ABOUT 15 PERCENT OF GNP, DOWN 6 OR 7 PERCENT FROM THE DEPRESSED LEVEL OF 1976 AND FAR BELOW THE 25 PERCENT WHICH WAS REACHED FREQUENTLY IN THE EARLY 1960S. FINANCE MINISTRY EXPERTS ARE DEEPLY CONCERNED ABOUT THIS DEVELOPMENT AND SAY THAT THE GOVERNMENT WILL BE TAKING STEPS SOON TO INCREASE PUBLIC SECTOR IN-

VESTMENT IN INFRASTRUCTURE PROJECTS. INCENTIVES WILL ALSO BE GIVEN TO THE PRIVATE SECTOR TO RAISE INVESTMENT, BOTH BY AN IMPROVED INVESTMENT LAW AND BY A MORE EXPANSIVE GOVERNMENT MONETARY AND FISCAL POLICY. IN 1978, THE GOI IS PLANNING FOR A GROWTH RATE OF 4 OR 5 PERCENT AND HOPES THAT THIS WILL INDUCE GREATER INVESTMENT.

3. MR. WHEELER POINTED OUT THAT THE NEW GOI ECONOMIC STRATEGY WOULD REQUIRE A DIFFERENT JUSTIFICATION FOR HIGH US AID LEVELS THAN HAD PREVIOUSLY BEEN USED. FROM 1974 UNTIL RECENTLY, A HIGH ECONOMIC AID LEVEL WAS SAID TO BE NECESSARY TO PREVENT A BALANCE OF PAYMENTS CRISIS EVEN AT ISRAEL'S LOW LEVEL OF ECONOMIC ACTIVITY. WITH THE RECENT IMPROVEMENTS IN THE BALANCE OF PAYMENTS AND CONSIDERING GOI PLANS FOR RE-NEWED GROWTH, OUR AID ACTUALLY WILL BE USED TO FINANCE AN INCREASE IN IMPORTS OF INVESTMENT AND CONSUMPTION GOODS IN THE EXPANDING ECONOMY. THE GOI EXPERTS AGREED THAT THIS WOULD BE THE CASE.

4. COMMENT: THE EMBASSY SHARES THE GOI VIEW THAT THE DECLINE IN SAVINGS AND INVESTMENT IN A VERY SERIOUS CAUSE FOR CONCERN. BECAUSE OF THE LAG BETWEEN INVESTMENT DECISIONS AND INCREASED OUTPUT, THE GOI WILL FACE A DIFFICULT TASK IN REACHING LIMITED OFFICIAL USE

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ING THE 6-7 PERCENT ANNUAL REAL GROWTH TARGET WHICH THEY HAVE SET FOR THEMSELVES BEGINNING ABOUT 1980. LEWIS

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, FOREIGN ASSISTANCE APPROPRIATIONS
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Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977TELAV08445
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770396-0977
Format: TEL
From: TEL AVIV
Handling Restrictions: n/a
Image Path:
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Legacy Key: link1977/newtext/t1977108/aaaaagqj.tel
Line Count: 97
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: cd55a933-c288-dd11-92da-001cc4696bcc
Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 22-Mar-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 985721
Secure: OPEN
Status: NATIVE
Subject: ISRAEL'S 1977 ECONOMIC PERFORMANCE AND US AID LEVELS
TAGS: ECON, EAID, US, IS
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/cd55a933-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009